Lazard London Directors' Pension Scheme
Update to members and Summary Funding Statement for the years to 31 December 2013 and 31 December 2014

The Trustees of the Lazard London Directors' Pension Scheme ("the Scheme") are pleased to be able to provide members with details of the results of the recently completed triennial funding valuation of the Scheme, which was carried out as at 31 December 2013 together with an update as at 31 December 2014.

Summary Funding Statements will usually be sent to you within twelve months of the end of the period to which they relate. However, in the years when a triennial actuarial valuation is undertaken (which can take over a year to complete), the production of the annual Summary Funding Statement to members is delayed until the results of the triennial valuation are available.

In the case of the Scheme's 31 December 2013 valuation, agreement was formally reached between the Trustees and the Employer on 31 March 2015. The Actuary has since provided an update of the position as at 31 December 2014. Therefore, this document is designed to include all the information required to act as the formal Summary Funding Statements for 2013 and 2014.

The purpose of this statement

The purpose of this statement is:

- to summarise the results of the recently completed 2013 valuation of the Scheme;
- to explain the reasons why the 2013 funding position is different from the funding position described in the summary funding statement for the year to 31 December 2012;
- to explain how the Trustees and the Employer have agreed to improve the funding position; and
- to provide an update on how the funding position has changed between the valuation date and 31 December 2014.

This note also contains an update on how the assets are currently invested as well as confirmation that there have been no changes to the benefits provided by the Scheme since 31 December 2012.

Management of the Scheme

The Scheme comprises funds paid by Lazard & Co., Services Limited ("the Employer") and its predecessor business into the Scheme so that it can pay pensions to Scheme members when they retire.

The money to pay for members' pensions is not kept separately for each individual, but rather is held in a common fund managed on behalf of the Trustees by professional third parties whom we have appointed for this purpose.

The Trustees' objective is to have sufficient money available to pay retirement benefits as they fall due and to meet the funding levels agreed with the Employer (see below). We obtain triennial actuarial valuations of the benefits due to members and, using this information and advice received from the actuary to the Scheme, agree with the Employer what measures, including further contributions, if any, to put in place to meet our objective. The most recent valuation, as at 31 December 2013, was completed in March 2015.

For each triennial valuation the actuaries make a number of assumptions about what will happen in the future, including how long people will live; inflation and returns on investments. They then calculate the valuation surplus or deficit by comparing this estimate of the amount needed to pay the benefits, with the value of the investments. A valuation prepared in this way is called an "ongoing" valuation.

In the case of the Lazard pension schemes the Trustees and the Employer also have targets under the 2005 Funding Agreement to meet certain funding levels by specified dates.

The 2005 Funding Agreement

The Trustees' ultimate funding objective is to be able to buy out the Scheme's liabilities with an insurance company. The Funding Agreement, signed on 30 August 2005 between the Trustees and the Employer sets this as the ultimate objective with the target of reaching this by June 2030. The agreement also sets two interim objectives:

- The Scheme should be fully funded on the basis of the accounting standard FRS17 by 31 May 2010, and as detailed in previous summary funding statements. This target was met successfully.

- The Scheme should be fully funded on a gilts basis by 31 May 2020 ("the 2020 gilts basis objective"). Under a gilts basis, the amount assessed as needed to provide the benefits is calculated in a similar way to the ongoing valuation but the expected payments to members are discounted using the yield on government bonds (gilts), with no allowance for any outperformance resulting from the Scheme's other assets such as equities.

As part of the discussions with the Employer, regarding the 2013 valuation, the Trustees agreed with the Employer that additional security will be provided to the Scheme in the form of an unlimited guarantee from Lazard's US parent, Lazard Group LLC and a cash sum of £10.85m to be paid into the Scheme during 2015.

In addition, the Trustees and the Employer agreed that the calculation of the amount needed to pay the remaining benefits in the Scheme would be changed, so that it better reflects the Employer's obligation under the 2030 buyout objective. The revised calculation ensures that for the 2013 valuation, and future valuations, the resultant contributions required from the Employer to repair any shortfall will be set at a level that explicitly focuses on the 2030 buyout objective.

In return for the above, the Trustees agreed to waive the 2020 gilts basis objective.

We are of the view that the guarantee from Lazard Group LLC, which will provide a safety net for your benefits should Lazard's UK businesses weaken, along with the agreed 2015 cash contribution, offer a significant enough improvement to the long-term security of members' benefits to agree to waive the 2020 gilts basis objective.

The Trustees also consider that the contributions agreed with the Employer as part of the 2013 valuation are consistent with the objective in the Funding Agreement to target being fully funded on a Buyout Basis by 2030. The Trustees and the Employer will consider whether this remains the case as part of future valuations, and will review the funding of the Scheme to ensure that the 2030 Buyout Basis objective continues to be met.

The changes to the Scheme's investments since the previous summary funding statement are detailed in the "Scheme Investments" section below.

The results of the actuarial valuation at 31 December 2013 and progress since

As at 31 December 2013, the funding position, on an ongoing basis (as described in the Management of the Scheme section above), gilts basis and buyout basis were assessed as follows:

	Ongoing basis	Gilts Basis	Buyout Basis
Assets	£141.0m	£141.0m	£141.0m
Amount assessed as needed to provide benefits	£150.5m	£165.1m	£205.0m
Shortfall	£9.5m	£24.1m	£64.0m
Funding level	94%	85%	69%

The Scheme Actuary has since provided approximate updates of the funding levels as at 31 December 2014. They are as follows:

	Ongoing basis	Gilts basis	Buyout basis
Assets	£155.6m	£155.6m	£155.6m
Amount assessed as needed to provide benefits	£179.4m	£195.7m	£232.6m
Shortfall	£23.8m	£40.1m	£77.0m
Funding level	87%	80%	67%

The gilts basis position is shown in this statement for completeness but will not be shown in future statements given the agreement with the Employer to waive the 2020 gilts basis objective.

Changes to the funding level since the previous summary funding statement

The previous summary funding statement set out the ongoing funding position as at 31 December 2012. The 31 December 2013 and subsequent ongoing funding levels are assessed using the new valuation methodology that explicitly focuses on the 2030 buyout target. It is more prudent than the approach adopted in 2010. Despite this, the funding position improved over 2013. However, the position deteriorated again over 2014.

	31 December 2012 Actuarial Report	31 December 2013 Actuarial valuation	31 December 2014 Actuarial Report
Assets	£136m	£141.0m	£155.6m
Amount assessed as needed to provide benefits	£155m	£150.5m	£179.4m
Shortfall	£19m	£9.5m	£23.8m
Funding level	**88%**	94%	87%

This improvement in the ongoing funding position shown in the actuarial valuation as at 31 December 2013 was due to an increase in the Scheme's assets as a result of good performance, coupled with an overall reduction in the amount assessed as needed to provide the benefits, despite the more prudent funding target. This fall in the amount assessed as needed to provide the benefits resulted from:

- changes in market conditions, in particular an increase in the yields available on gilts which is a key input into the assessment of the amount needed to provide the benefits; and
- membership experience revealed as part of the 31 December 2013 valuation.

However, over 2014 gilt yields fell significantly again, leading to a significant increase in the amount assessed as needed to provide the benefits. This increase was only partially offset by the continuation of the very strong asset performance we have seen in recent years.

As you can see, the funding level of the Scheme will fluctuate as a result of movements in the investment markets and other factors.

The Trustees will continue to monitor the funding position and a summary funding statement for the year to 31 December 2015 will be provided at a similar time in 2016, based on the next actuarial report as at 31 December 2015. The next full triennial valuation of the Scheme will be carried out as at 31 December 2016.

Addressing the funding shortfall

Following completion of the 2013 valuation, the Employer has agreed with the Trustees a "recovery plan" that is designed to eliminate the £9.5m deficit on an ongoing basis by 31 December 2015. The recovery plan comprises:

- a contribution of £0.2m paid in June 2014;
- a contribution of £2.15m to be transferred from the Escrow account set up as part of the 2010 valuation; and
- a contribution of £8.7m to be paid directly by the Employer in three equal instalments by 30 June, 30 September and 31 December respectively

The Escrow account will have no assets following the payment described above and will be wound up.

The Trustees have reviewed the significant deterioration in the funding level since the valuation and have decided that, given all the circumstances, including the provision of the uncapped guarantee from Lazard Group LLC and the significant cash contributions which the Employer has already agreed to pay in 2015, it would not be appropriate to approach the Employer with a view to seeking a further increase in contributions at this stage.

However, if the yields on index-linked gilts remain at the current low levels, by the time of the 2016 triennial actuarial valuation, this factor will be an important consideration in our discussions with the Employer at that time on the level of future contributions.

The importance of support from the Employer

The Trustees' objective is to have enough money in the Scheme to pay pensions now and in the future. However, the success of this relies on the Employer continuing to be willing and able to support the Scheme with additional cash if there are funding shortfalls.

By obtaining an unlimited guarantee from Lazard's US parent, Lazard Group LLC, the Trustees believe the overall security of members' benefits has significantly improved.

Securing the benefits payable from the Scheme

As noted above, the Trustees' and the Employer's long term objective is to have sufficient assets to secure the Scheme's liabilities with an insurance company by 2030 and the Funding Agreement sets this out as a specific funding target. As described above, the framework for the funding of the Scheme is now more closely aligned with this objective.

The higher shortfall on a buyout basis, shown above, reflects an estimate of the high cost of securing pensions with insurance companies immediately. Insurers are obliged to take a very cautious view of the future; they seek to make a profit and the cost of securing pensions in this way incorporates the cost of the insurer administering the benefits. By contrast, the ongoing funding plan assumes that the Employer will continue in business and continue to support the Scheme, with the buying-out of the remaining benefits, in full, not happening until 2030. Whilst the Scheme remains ongoing members' benefits will continue to be paid in full, even though funding may temporarily be below target.

If the Scheme were to start to wind up, the Employer would be required by law to pay enough into the Scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that the Employer would not be able to pay this amount in full. If the Employer could not meet this cost and it became insolvent, the Trustees would then seek to secure the additional monies necessary to buy out the benefits from Lazard Group LLC, under the terms of the guarantee, and then buy out the benefits. In the event that the full amount could not be paid by Lazard Group LLC, for instance if they were also in financial difficulty, the Trustees would secure as much of the Scheme's benefits as it could with an insurer. However, if better benefits could be secured through the Pension Protection Fund, they would take over the Scheme and pay a specific level of compensation to members.

Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

It should be noted that the information in this statement on the Scheme's buyout position is provided to help you understand the financial security of your benefits and the financial implications of the 2030 funding target in the Funding Agreement. Its inclusion does not imply that the Employer is thinking of winding up the Scheme prior to 2030, nor that the Employer is likely to become insolvent.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action. The law prevents us, or any employee of Lazard, from providing you with financial advice.

Scheme Investments

The Trustees' policy remains to invest in a broad range of assets. As at 31 December 2014, the Scheme's investment strategy, excluding AVCs, was to invest the Scheme's assets according to the following benchmark:

Global equities	32.5%
Absolute return investments	10.0%
Total growth assets	**42.5%**
Total matching assets*	**57.5%**

*Matching assets include liability driven investment funds and bond funds.

This overall split of the benchmark between growth and matching assets is unchanged from the previous summary funding statement provided to you during 2013.

Further information is set out in the Scheme's Statement of Investment Principles, which is available on request (see below).

Changes to the benefits provided by the Scheme

There have been no changes to the benefits provided by the Scheme since 31 December 2012.

Payments to the Employer

Apart from reimbursement of Trustees' remuneration paid on behalf of the Scheme, there have been no payments to the Employer out of the Scheme's funds since 31 December 2012.

Further information

Information about the Scheme can be accessed online at:
http://www.lazard.com/London/

When prompted for a User Name and Password, please enter the following:

User Name: uklazard
Password: 1a7ard

Please note that the user name and password are case sensitive and the first and third characters of the password are the numbers one and seven respectively.

The website contains the following documents:

- The Annual Report and Accounts for the year ended 31 December 2013, which shows the Scheme's income and expenditure in the year;
- the Statement of Investment Principles, which explains how the Trustees invest the money paid into the Scheme;

- the Schedule of Contributions, which shows how much money is being paid into the Scheme by the Employer;
- the full report on the Actuarial Valuation as at 31 December 2013; and
- the actuarial report on the approximate funding position as at 31 December 2014.

Alternatively, you may request copies of any of these documents from the Scheme administrator, Capita Hartshead using the following telephone number and address:

Capita Hartshead
Private Sector Pensions
Hartshead House
2 Cutlers Gate
SHEFFIELD
S4 7TL

Telephone: 0141 222 5131
Email: joan.gorman@capita.co.uk

Please also contact Capita Hartshead if you change your address or if you require any more information about the Scheme.

David Anderson
Chairman
on behalf of the Trustees of Lazard London Directors' Pension Scheme.

June 2015.